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C O N F I D E N T I A L SECTION 01 OF 02 USNATO 000640

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TAGS: [MOPS](#) [NATO](#) [PREL](#) [IZ](#) [AF](#)  
SUBJECT: DEPUTY SECRETARY KIMMITT ADDRESSES THE NORTH  
ATLANTIC COUNCIL

Classified By: Ambassador Victoria Nuland for reasons 1.4 (b) & (d)

¶1. (U) Summary: Treasury Deputy Secretary Robert Kimmitt reviewed key points of the International Compact for Iraq (ICI) with the North Atlantic Council on 18 October 2006. Kimmitt noted that the ICI is a contract between the international community and Iraq with the goal of achieving economic self-sufficiency and financial independence within five years. This effort is linked with security and political reforms, which should be mutually reinforcing. The presentation generated significant interest among Allies, including a follow-up inquiry by the Slovak Mission on how to join the Compact. It also served our larger goal of broadening strategic dialog among NATO Allies into vital security areas where the Alliance itself is not the lead actor.

¶2. (U) Deputy Secretary Kimmitt, reviewing key milestones, noted that the Compact was announced in July and a preparatory group composed of countries with the greatest financial engagement with Iraq at that point in time was formed. Specifically, all countries with 200 million dollars in assistance or 4 billion dollars in debt forgiveness were invited to participate in the preparatory group. The Iraqis organized the first meeting in Baghdad in July to craft the Iraqi contribution to the Compact: a set of economic reforms designed to deliver growth and demonstrate progress to Iraqi citizens. He noted that the Iraqi plan had been reviewed at ministerial-level meetings around the edges of the IMF/World Bank meetings in Singapore and the U.N. General Assembly meetings in New York. Over 35 countries participated in such meetings. A final preparatory group meeting is planned for October 31 in Kuwait City.

¶3. (C) Kimmitt said that the time has come to focus on the international community's side of the agreement. He explained that, once the Compact is signed, any other party interested in assisting Iraq will be welcome to join the Compact. Current Iraq needs include: funding for economic development, security, and capital investment for reconstruction purposes. He noted that GOI has its own resources and that no "Marshall Plan" structure is needed. He indicated that GOI has the potential to reach economic self-sufficiency within 5 years if they receive medium-term bridge support now. The goal is to use the economic reform package to draw together the strategic center and help the government exercise control in the country.

¶4. (C) Kimmitt also noted that the GOI has proved able to

meet defined targets and goals that contain conditionality components. Their experience with the IMF stand-by agreement in particular demonstrates Iraq's ability to hold up its end of the Compact when it is finalized.

15. (C) In response to questions regarding Afghanistan, Kimmitt regretted that by comparison, the Afghan Compact lacks clear priorities or measurable targets. As a consequence, the Afghan experience may not be a good indicator of how the Iraq Compact might function. He noted that the U.S. is working to assist the Afghan finance ministry and Central Bank. The upsurge in the flow of funds to the Taliban and Al Qaeda networks is a concern. In a subsequent meeting, Ambassador Nuland suggested that getting the Gulf Arabs to look again at contributing to the Afghanistan Compact could breathe new life into the agreement. For example, Gulf States with funds to donate could be "married-up" with smaller European countries who are leading PRT's in Afghanistan. Kimmitt concurred, emphasizing that a demand side approach, especially for education and health care facilities, could prove to be successful. He noted that there are some tricky issues associated with linking PRTs too closely to third-party donors. Kimmitt also noted the need to understand better and encourage the participation of multilateral lending organizations like the Islamic Development Bank and the Arab Fund for Reconstruction and Development. Kimmitt noted that in other EU meetings the potential role of the European Investment Bank was also discussed.

16. (C) Other PermRep questions to Kimmitt focused on oil revenues. After describing the Iraqi's current and projected oil output, Deputy Secretary Kimmitt said that approximately 200,000 barrels/day are being siphoned off to fund terrorism

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and insurgency. He explained that the goal of the Iraq Compact and related oil legislation is to create transparency from the well-head to the finance ministry, thereby thwarting those who would siphon oil off for personal gain or nefarious purposes. Another goal is to distribute the revenues throughout the country, with 20% of the revenues going to the center of the country.

17. (C) Oil output is approaching pre-war levels, although revenues still lag due to siphoning between the well-head and the government. Kimmitt indicated that the Iraqis have the potential to increase production from 2.5 million barrels per day to 4 million barrels per day over a five-year period, but this would require much more capital investment and security improvements, both of which need to come through foreign investment. Even if the Iraqi budget grows substantially, the government will need these funds from increased production to service security needs in the near-term, so foreign investment will be key to continued growth in output.

18. (U) Deputy Secretary Kimmitt stated that overall, on a macro economic level, the Iraqis have laid out their plan well and they have a solid budget.

19. (C) Ambassador Nuland asked Kimmitt to brief PermReps also on U.S Treasury steps regarding North Korea. In response, Kimmitt said that Treasury actions are aimed at specific conduct, not individual countries. He further explained that Treasury's actions against the Banco Delta Asia bank branch in Macao were specifically designed to avoid extraterritorial issues. Treasury's actions do not require, but often spur other governments or financial institutions to take action outside the United States. They only cut off terrorist and other negative world actors' access to the U.S. financial system, thus impairing their ability to compromise the U.S. financial system. The process also sends a strong message to the rest of the world about the importance of protecting financial systems from abuse. Kimmitt noted that these are not political actions but law enforcement matters independent of the 6-party talks. He also noted that the

response to the actions taken by Treasury had been well received in the region. In their private session, Nuland asked Kimmitt to ensure visiting Treasury officials stop at NATO from time to time to keep Allies briefed on terrorist finance, and the Iraq and Afghanistan Compacts.

¶10. This cable was cleared by Deputy Secretary of the Treasury Kimmitt while traveling.  
NULAND